BUDGET **ADDRESS**

NORTHWEST TERRITORIES 2003 - 2004

Northwest Territories

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The Honourable Joseph L. Handley
Minister of Finance

Sixth Session
of the
Fourteenth Legislative Assembly
of the
Northwest Territories

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INTRODUCTION

Mr. Speaker, three years ago I presented the first Budget of the Fourteenth Legislative Assembly. I spoke then of the optimism and excitement felt in the Northwest Territories as we stood on the brink of tremendous new developments. In *Towards a Better Tomorrow*, Members of the Fourteenth Assembly laid out a vision for a strong, vibrant economy in the Northwest Territories and self-reliant, healthy, well-educated individuals, families and communities doing their part in improving the quality of their lives.

That first Budget laid out two key strategies to help us achieve our goals – building partnerships with other governments and making key investments in our people, our infrastructure and our future.

This is the last Budget of the Fourteenth Assembly. This Assembly can look back at solid achievements. We can look back at the considerable progress we have made toward realizing our vision.

Our strategies have not changed. The decisions we make now in this Assembly, and our ability to work together with our northern partners will determine whether the economic growth we are experiencing means a bright future for all Northwest Territories residents or squandered opportunities and unsustainable development.

One of the most important decisions is how we balance the many demands placed on the Government's fiscal resources. This Government has adopted a strategy of prudent spending on critical investments, even though this meant the possibility of running deficits. We have been fortunate to benefit from some large one-time revenues in 2000-2001 and 2001-2002. However, these one-time revenues have not addressed our underlying fiscal problem. The needs created by the expanding economy are causing our expenditures to grow faster than our revenues. This fundamental issue must be addressed if we are to achieve our vision.

As our Premier, the Honourable Stephen Kakfwi, stated in his Address to the people of the Northwest Territories in January, the next few years will be pivotal. Our decisions will have profound implications for our future. We must work together if we are to succeed in the vital tasks ahead.

We need to take stock as the Fourteenth Assembly. What have we achieved? What can be achieved in our remaining term? And what can we do to set the groundwork to allow the Fifteenth Assembly to meet the challenges, especially the fiscal challenges, which it will face?

TAKING STOCK

The Economy

Mr. Speaker, our economy is booming. Our real Gross Domestic Product, the measure of the size of our economy, grew by 19 per cent in 2001. Although we are forecasting economic growth to slow to 1.4 and 1 per cent respectively in 2002 and 2003, we expect exports, in particular diamond exports, to start growing more rapidly by the end of 2004. The current levelling off in the economy simply reflects the fact that construction of the Northwest Territories' second diamond mine is now completed and therefore the value of business investment will drop. The proof of a healthy, strong Northwest Territories economy lies in the fact that real GDP is not expected to decline following the completion of this $1.3 billion construction project, but will continue to grow.

We see examples of the economic boom throughout the Northwest Territories. Natural gas activity in the Fort Liard region is busier than it has been for the last two years. While exploration activity has slowed temporarily in the Mackenzie Delta, industry analysts suggest that the slowdown is due to oil and gas companies postponing exploration activity until there is a way to move their product to southern markets. It is anticipated that the Mackenzie Valley Pipeline will be built in the near future, and to that end, the Mackenzie Valley Producers Group is continuing work on the Project Definition Phase of the project.

Housing construction is booming in some communities. This residential construction is not expected to slow down anytime soon. Further proof of a strong economy is the fact that the Northwest Territories' overall average employment rate was 71 per cent in 2002, once again the highest in Canada. The 2002 average Northwest Territories unemployment rate was 6.5 per cent, the fourth lowest of all the provinces and territories. Consumer spending continues to grow. Retail trade was 17 per cent higher in the first nine months of 2002 than the same period the year before. Preliminary information shows that tourism has increased significantly over 2001, bringing millions of dollars into the Northwest Territories. Our tourism industry is poised for growth — growth that will be fuelled by a combination of entrepreneurship and the natural wonders of the Northwest Territories.

Overall, resource development, in particular diamond mining and natural gas activity, and tourism is keeping the economy booming. We expect our economy to continue to be strong and our economic future to be bright.

Mr. Speaker, the Fourteenth Assembly will leave in place a strong foundation, one that includes a strong economy on which we can base continued improvements in the quality of life for all Northwest Territories residents. We have built this foundation by balancing our economic, environmental, social, political, and cultural priorities. In doing so, by 2003-2004, we will be investing an additional $150 million in on-going spending in social and community programs and $22 million in on-going economic development initiatives, compared with when we took office.

Building on Economic Opportunities

The foundation we are building includes a strong economic base in every region of the Northwest Territories. We have undertaken an interlocking set of initiatives to provide for responsible economic development that respects the environment, that meets the needs of northern residents, and that ensures northerners can benefit from development. At the start of the Fourteenth Assembly, the Economic Strategy Panel released its report, *Common Ground*. The recommendations in this report continue to guide us. In the same year, we released the *Non-Renewable Resource Development Strategy*, which complements the work in *Common Ground* and is a major building block of our vision.

We have made investments in building business capacity in Aboriginal organizations, in environmental assessment, and in preparing for natural gas and pipeline development. We have created a *Protected Areas Strategy*, have drafted an energy discussion paper, and have participated in environmental and socioeconomic programs with the diamond mining companies. All of these initiatives were taken to ensure responsible non-renewable resource development.

With our regional Aboriginal partners we have also begun discussions and further research into the hydro-electric potential of our Northwest Territories river systems. Hydro-electricity can provide a more environmentally friendly source of energy for Northwest Territories communities, mines, pipeline compressor stations and for export. However, much research needs to be done to determine if our hydro-electric resources can be developed in a manner that is both cost effective and environmentally acceptable.

We have invested over $60 million in highway construction and resurfacing activities to date as part of our transportation strategy. We have made, and will continue to make, investments in other capital infrastructure necessary for continued resource development.

We have lowered corporate income taxes to encourage investment in the Northwest Territories.

Investing in our People

Our investments in economic development matter because they will improve the quality of life for northerners. Increased employment opportunities have lessened dependence on social assistance. Social assistance payments continue to fall, and have done so consistently since 1999. In fact, last year we were able to re-invest $1.5 million in savings from this Program in enhanced program benefits.

We changed the personal income tax system from "tax on tax" to "tax on taxable income." This change gave us the flexibility to increase individual tax credits, which we did in 2002. In 2001, we increased the Cost of Living Tax Credit and in 2002, introduced a minimum Credit to provide financial relief to low income northerners. We were also able to provide tax relief for seniors and the disabled

by increasing the age and disabled tax credits. These initiatives have provided $10 million in ongoing tax relief to Northwest Territories residents and helped us remain competitive with provincial tax regimes.

We initiated the development of the Social Agenda and have responded positively to all ten of the recommendations produced in the Agenda's blueprint, *Social Agenda: A Draft for the People of the NWT*. We have demonstrated our commitment to the principles of tolerance, dignity and respect by enacting the *NWT Human Rights Act* last October.

Mr. Speaker, we responded to the health care needs of our residents. We increased our annual investment in health care by $40 million between 1999-2000 and 2002-2003. Last December, the Honourable Michael Miltenberger, Minister of Health and Social Services announced a further investment of $8.3 million in the health and social services system – funding that will be used to create 42 new nursing and physician positions.

We have increased spending on education by over $46 million from 1999-2000 to 2002-2003, allowing us to reduce the pupil-teacher ratio, to enhance other programs, and to undertake critical initiatives in early childhood development programs and the NWT Literacy Strategy.

The Maximizing Northern Employment program was introduced in the fall of 2001. Since then, $15 million has been invested under this program so that northerners have the training they need to take advantage of the job opportunities. This program has been successful. For example, 40 of the 47 graduates placed under the Northern Graduate Intern Program and 75 per cent of the graduates participating in the Northern Graduate Transition Program are still working in the Northwest Territories today.

Building Strong Partnerships

Together with our Aboriginal partners, we have made substantial progress toward a political and constitutional system that meets the needs of all Northwest Territories residents and that recognizes the Inherent Right to Self-government. To this end, we support the Intergovernmental Forum Process. Over the last two years, we have provided $1.8 million to the Aboriginal Summit to participate in this process, and this commitment will be renewed in this Budget for another $1.2 million.

We have signed and reached new milestones in negotiating lands, resources and self-government agreements. The Tlicho Land Claim and Self-government Agreement was initialled and released to the public for review and comment in 2002. Shortly after, the Deh Cho and Akaitcho First Nations successfully concluded boundary and overlap agreements with the Dogrib Treaty 11 Council. The Tlicho hope to sign a Final Agreement in August 2003. With the pending resolution of boundary and overlap issues, the Akaitcho table has begun negotiations toward an Agreement-in-Principle.

The Deh Cho First Nations are close to an agreement with the Government of Canada on interim land withdrawals and an Interim Resource Development Agreement. Concluding these agreements will shift the focus of negotiations to an Agreement-in-Principle. Finally, the Northwest Territory Metis Nation, and representatives of the federal and territorial governments signed an Interim Measures Agreement last summer. Negotiations on an Agreement-in-Principle are moving ahead.

We have also seen significant progress at other Self-government tables. The Gwich'in Tribal Council, Inuvialuit Regional Corporation and the federal and territorial governments approved the signing of a Beaufort/Delta Self-government Agreement-in-Principle, and negotiations towards a final agreement are underway. We expect the negotiators at the Deline table will soon seek approval to initial an Agreement-in-Principle on Self-government.

We are also working to foster more government-to-government partnerships. Last month, the Honourable Jim Antoine, Minister of Resources, Wildlife and Economic Development, signed an agreement with the Gwich'in Tribal Council to set a target of awarding, over the next five years, 50 per cent of the value of government contracts within the Gwich'in settlement area to Gwich'in businesses. This agreement reinforces our commitment to work in partnership with other governments and is an important step in building northern Aboriginal business capacity.

Strengthening Our Culture

Mr. Speaker, the Northwest Territories' cultural diversity and vitality is part of our strength. Culture, heritage, and language help define our identity. We have supported and celebrated our traditions, our diverse cultures, our languages and people. Starting last year, we have been investing an additional $900,000 per year to preserve Aboriginal languages, bringing our total annual support to almost $8 million. We are the first and only Canadian jurisdiction to declare National Aboriginal Day a statutory holiday.

Addressing Fiscal Challenges

Mr. Speaker, these investments have laid the foundation on which the Fifteenth Assembly can continue to build. Our Government was facing large deficits when we took office. Despite, this, we have made significant investments in our people and in our economy, without leaving our fiscal position worse than we found it. In fact, the next Government will be better off because of the achievements of the Fourteenth Assembly. The new Government will not be encumbered by the need to replace huge capital assets such as the hospital in Inuvik and the North Slave Correctional Facility. Since our last Budget, we have achieved settlements relating to equal pay complaints and student abuse claims. These settlements, in addition to responding to residents and employees in a respectful way, have freed future governments from this financial burden. Pressures to deal with

urgent senior housing issues have been lessened with the construction of 64 new senior housing units throughout the Northwest Territories. And, as of last summer, only 50 kilometres of Highway 3 remain to be rebuilt.

FISCAL REVIEW AND OUTLOOK

Mr. Speaker, it is with considerable frustration that I report that the Northwest Territories' amazing economic growth is not reflected in the finances of this Government. Expenditures are increasing faster than revenues and our fiscal resources are not sufficient to make all the investments in people and in infrastructure that Members have identified as necessary to support our vision.

2001-2002 Year End Results

Last year at this time, we were enjoying the benefit of the receipt of a large one-time corporate income tax payment and were in a healthy short-term fiscal position. We finished the 2001-2002 fiscal year with an operating surplus of $120 million.

This surplus will be used to fund the operating deficit expected for the current fiscal year, 2002-2003.

2002-2003 Update

Last February, I forecast an operating deficit of $12 million for 2002-2003. However, significantly declining revenues, combined with an increase in forecast expenditures, have caused us to revise our estimated operating deficit for the current fiscal year to $106 million.

Revenues have declined $82 million from last year's Budget forecast. Both lower than expected population growth and higher than expected provincial-local government tax effort lowered the forecast Grant from Canada under the Formula Financing Agreement.

2003-2004 Outlook

The coming fiscal year, 2003-2004, will continue to see revenue forecasts that are below our expected spending needs. Revenues are forecast to be $854 million, a 10 per cent increase above this year's levels.

Expenditures are forecast to increase 5.7 per cent to $931 million, producing an estimated operating deficit of $77 million. In addition, our investment in capital will total $74 million, down from $143 million last year. Together, our operating and capital needs will result in an expected year-end cash deficit of $85 million, which will bring our total debt at March 31, 2004, including that of the NWT Power Corporation and the NWT Housing Corporation, to $214 million, well

within our $300 million federally-imposed borrowing limit. However, our available borrowing room will be limited to $86 million.

Our revenue forecasts are very sensitive to the factors used to calculate the Grant, in particular population estimates. As Members are aware, we believe the 2001 Census resulted in a significant undercount of our population. Statistics Canada is conducting undercoverage studies and will release final adjusted numbers this September. These numbers will be used to calculate our Grant entitlement. The 2003-2004 revenue forecast reflects our estimate of these final Census figures. The NWT Bureau of Statistics conducted its own population survey last fall. Preliminary results suggest that our population estimate is in line with reality. However, if the final official undercount differs by one percentage point from our estimate, the adjustments to the Grant will change our revenues over the next three years by about $50 million.

The Grant is also sensitive to the measure of the Government's revenue raising effort relative to that of the provinces. We saw a large increase in the tax effort factor in 2002, which caused the Grant to drop. The large value of our tax revenues, compared to historical levels, has caused the swings due to changes in tax effort to become more significant. Our forecast of revenues could change significantly if this factor changes.

Medium-Term Outlook

Mr. Speaker, assuming our revenue forecasts hold up, and assuming no other action to change things over the next two years, the projected deficit for 2004-2005 would be $85 million. Clearly, our revenues are not sufficient to maintain the current level of spending. Last year's Budget predicted that by 2004-2005 our borrowing would be close to the $300 million limit. Current forecasts suggest that the Government could exceed the borrowing limit by $70 million at the end of 2004-2005. We recognize that this outlook calls for a response to reduce the projected deficit through expenditure control and through some targeted revenue measures. However, we must be clear. Ultimately our Government's fiscal health depends on federal investment and on equitable resource revenue sharing.

FISCAL STRATEGY

Despite the fiscal situation, we are not abandoning our overall fiscal strategy. We will balance revenue capacity with spending needs and still continue to make the investments necessary to advance our economic and social goals. We are basing this commitment on two key assumptions: first, that economic development will continue and second, that northern governments will achieve devolution of jurisdiction over our non-renewable resources, along with an equitable revenue sharing arrangement.

We are not using these assumptions to postpone managing what is clearly an unsustainable fiscal situation. However, the window of opportunity to develop our economy is open now. We are not going to close this window with a knee jerk

reaction to our fiscal situation. We need to invest. Resource development is accelerating, not slowing down. Northwest Territories residents urgently need more education and training to benefit from these economic opportunities. Our ability to recruit and retain staff will become more difficult as southern economies remain strong and national shortages in many professional occupations worsen.

The solution to our fiscal situation will require careful, well-considered moves that do not jeopardize the long-term goals or well-being of northerners. We intend to balance the budget over time and stay aware of our borrowing limits while at the same time maintaining necessary investments.

We are taking some revenue and expenditure measures that will help with the short-term fiscal situation. For the longer-term, it is critical that we look at revenue issues. Given that the lion's share of the fiscal benefits of resource development goes to the federal government, we are discouraged by the reluctance of the federal government to meet its responsibility to participate more fully in the development of the Northwest Territories. We are disappointed in the lack of a federal response to opportunities in the Northwest Territories that would benefit all of Canada. For example, the Government's proposal, *Corridors for Canada,* called for a strategic $133 million investment from the federal *Strategic Infrastructure Fund* for Northwest Territories' transportation corridors. Despite being told that our proposal was the best one submitted by any provincial or territorial government, we received a commitment from the federal government of only $20 million.

Our difficulty in addressing our infrastructure needs is threatening the Northwest Territories' capacity to prepare for development. Federal involvement is crucial to many large-scale developments and federal support is especially critical if the building of the Mackenzie Valley pipeline is to benefit northerners.

Federal government partnership and investment is not happening in as timely or complete a manner as the situation demands. Without it, many opportunities will be lost.

Equally important, our current fiscal arrangements with the federal government, in particular the Formula Financing Agreement, are not appropriate in this era of rapid economic development. Why? Because they do not address the financial stress placed on the Government by the demands of the booming resource economy. We are addressing the issues concerning our fiscal arrangements with Finance Canada at all levels. We have also made it clear that the federal government will lose many opportunities to benefit from resource development in the Northwest Territories if it continues to insist that all three territories be treated exactly the same. Clearly each territory has different needs and economic development opportunities that demand Canada tailor fiscal arrangements in recognition of these differences.

I am very pleased to note that the Aboriginal Summit and the Government of the Northwest Territories have begun negotiations with the federal government for the transfer and devolution of provincial-like authorities and responsibilities for the Northwest Territories' lands and resources. If successful, these negotiations

will bring control of Northwest Territories' resources to the people of the Northwest Territories. This includes the transfer of resource revenues, which are critical for the Northwest Territories to become less dependent on Canada for funding our programs and services. Devolution will mean that Northwest Territories residents are able to make the important decisions affecting the development of Northwest Territories resources.

Devolution will not solve all the fiscal problems the governments of the Northwest Territories now face, and will face, especially as we move forward with the negotiation of new governance arrangements. However, devolution will provide us with important new tools and responsibilities that will allow us to make decisions about the use and development of our natural resources. This will be an important step towards self-reliance and our goal of the Northwest Territories becoming an eventual "have" territory.

Our expenditure needs are also increasing in areas not directly related to the economy, in particular health care. Our health care expenditures have increased an average of $14 million per year since 1999-2000. For that reason, we were encouraged by the recommendations for increased federal involvement in health care funding made by the Romanow Commission. We were particularly encouraged by the mention in the Commission's report about problems with per capita funding for jurisdictions with small populations. The Northwest Territories, along with Nunavut and Yukon, has the highest per capita health care delivery costs in Canada. Providing health care to 33 small isolated communities spread across vast distances is very expensive. This fact is not reflected in the Canada Health and Social Transfer, or CHST.

Mr. Speaker, last week Premier Kakfwi met with his federal, provincial and territorial counterparts to discuss improvements to the Canadian health care system. The Prime Minister offered the provinces and territories a total of $12 billion more over the next three years, under the CHST, as the federal contribution to increasing health care costs.

This money would be distributed to provinces and territories on a per capita basis, and would provide the Northwest Territories with an average of only $5.2 million a year over the next three years, or about one and one half weeks of our annual health and social services budget. This amount is clearly inadequate to deal with the health needs of the Northwest Territories, and Premier Kakfwi, along with his colleagues from Yukon and Nunavut, has not accepted it.

The Provincial Premiers agreed that per capita formulas do not work in the North and indicated their support for a health care fund for the North. The Prime Minister also acknowledged this in the House of Commons last week and I quote, "Of course, the per capita basis is not satisfactory for the territorial governments."

The Prime Minister has suggested that northern concerns could be dealt with in discussions between the federal government and the three territories, and we are hopeful that the four governments will soon resolve this issue to the benefit of residents of the three territories.

Despite our recognition that the Government is unlikely to receive significant new revenues in the immediate future, we do not believe it is prudent to alter our basic fiscal strategy. However, we must slow down capital investment and are tempering expenditures to maintain the overall debt at manageable levels. As we plan for the future, it is essential that we carefully consider how we will carry out the functions of the Government of the Northwest Territories. We must do so in a manner that maintains programs and services for the public, and is carried out in partnership with Aboriginal and other northern governments. This being said, all Northwest Territories residents must recognize that we will need to make some difficult choices.

To prepare for the challenges that lie ahead, we established the Corporate Review and Transition Planning Project last October. Operating during the current and coming fiscal years, the project is examining our current government operations and will identify, for the consideration of legislators, short and long-term options for government operations. In addition, the project will co-ordinate the development of cost restraint measures that will help to ensure that we can, in the long-term, operate within the financial resources that we have available. Our goal is to ensure that the Government of the Northwest Territories is organized in the most effective and efficient way possible.

In short, Mr. Speaker, we are fully aware of the fiscal challenges that the Fifteenth Assembly will face, for the simple reason that they are the same ones faced by the Fourteenth Assembly. The difference for the Fifteenth Assembly will be that we have freed them from a number of liabilities and have made investments that are already demonstrating returns in the form of an improved environment for economic development. Over the longer term, we believe the Fifteenth and later Assemblies will be able to recognize improvements in the well-being of Northwest Territories residents and communities that can be traced back to initiatives and investments put in place by this Assembly.

I would now like to turn to the initiatives and investments proposed in this Budget.

BUILDING ON OUR ACHIEVEMENTS

Social Agenda

Improved social conditions are essential to realize the dream of a better quality of life for all northerners. All residents must work together to strengthen our communities and each individual resident must take responsibility for actions to improve his or her individual health.

Last October, we tabled *Doing Our Part: The GNWT's Response to the Social Agenda*. In that document we outlined a number of actions that could be taken within the mandate of this Government to meet the goals of the Social Agenda Working Group and make positive changes to social conditions in the north.

Since that time, work has been underway to meet our mutual goals. Progress to date includes implementation of:

- multi-year funding for a number of community-based contribution programs;
- development of terms of reference for demonstration projects to begin this coming fiscal year in seven communities across the Northwest Territories;
- development of a social "lens" to be applied to all new program, policy and legislative development;
- distribution to all households in the Northwest Territories of a self-care booklet; and finally,
- work on a Healthy Living Strategy.

We look forward to working more closely with our Aboriginal government and non-government partners in the coming year to improve social conditions for all residents.

Healthy Lifestyles

The Government of the Northwest Territories encourages healthy life-style choices. For this reason, our Government is considering the possibility of legislation for smoke-free public and work places to curb the Northwest Territories' high smoking rates. In keeping with this effort to reduce tobacco consumption, I will allow the tax on tobacco products to increase to the quarterly prescribed rate, effective April 1, 2003. I estimate that this will result in an increase in the Northwest Territories tobacco tax of $6.80 per carton of cigarettes and an increase of 4.4 cents per 200 grams of loose tobacco. It is anticipated that this will generate $2.5 million in additional revenue to fund ongoing government expenditures. This initiative is expected to encourage smokers to quit and therefore reduce smoking rates, particularly among young people.

Alcohol abuse and impaired driving have caused too much grief and suifering for northerners in needless accidents that were entirely preventable. For those who have not heard, new tougher laws will deliver the message that the consumption of alcohol and the operation of a motor vehicle do not mix.

The Government intends to introduce new amendments to the *Motor Vehicles Act* this year that will strengthen our efforts to deter impaired driving in the Northwest Territories. With new administrative suspensions and new re-instatement conditions, the amendments will bring our impaired driving laws in line with similar laws that have been adopted in southern Canada over the past several years.

Our statistics show that there is a significant increase in alcohol abuse and related crime in certain communities as a result of economic boom conditions.

We know that excessive alcohol consumption has a detrimental effect on individuals, families and communities. In an effort to reduce the consumption of alcohol, we will be raising mark-ups on liquor sold in the Northwest Territories by 10 per cent, effective April 1, 2003. The increased mark-ups will raise retail liquor prices approximately 7 per cent for spirits, 3.6 per cent for beer and 5 per cent for wine. This initiative will also raise almost $1 million annually in new revenue for the Government.

This Government recognizes the need to address the significant mental health and addiction issues which, in turn, are at the heart of many health and social issues in our communities. This Budget includes an investment of $1.4 million to implement a four-year action plan that will see improvements to prevention, treatment and aftercare services. The 2003-2004 funding will include the hiring of mental health workers and clinical supervisors, training for prevention workers and enhanced funding for family violence shelters.

Health Care

We are all aware of the human resource and financial pressures on our health and social services system. The Government is committed to addressing these pressures to provide a stable system that can deliver services when they are needed. Considerable progress has been made in the last few months to alleviate these pressures.

In total, this Budget includes $26 million in additional funds for health and social service programs over last year's Budget. This brings the total department budget to $226 million in 2003-2004. Increased costs, primarily in health care expenditures, will account for $14 million of the additional funding. The remaining $12 million includes the $8.3 million for the Interim Health Professional Plan announced last December, almost $1 million for community demonstration projects, $758,000 for recruitment and retention initiatives and $258,000 for telehealth coordinators.

Education

Three years ago, this Government committed to reducing the pupil-teacher ratio. The Honourable Jake Ootes, Minister of Education, Culture and Employment, has continued that commitment in this Budget, which adds $1.2 million to education expenditures for this purpose. We have provided an additional $1.9 million for enrollment, mandatory new school programs and increased utility costs. This Budget contains an additional $2.9 million for Boards to meet increased costs and $474,000 to expand Student Financial Assistance in support of our nurse recruitment and retention initiatives. This Budget also contains an additional $230,000 to implement year three of the Early Childhood Development Action Plan. Almost $8 million will be added to the budget of the Department of Education, Culture and Employment to maintain this Government's commitment to education. This increases the Department's budget to $210 million in 2003-04.

Community Development

The Budget also contains new initiatives designed specifically to support our smaller communities.

I am pleased to announce that the Department of Municipal and Community Affairs will receive annual funding of $1 million to establish a program to begin chipsealing the main streets in non-tax based communities. The issue of dust on gravel roads has been a health concern in many communities. Paving main streets effectively controls dust on the roads that receive the heaviest traffic. As roads are paved, communities will also be provided with resources to obtain specialized equipment that will allow them to maintain the new road surfaces.

Both the Social Agenda, and the Interim Report of the Special Joint Committee on Non-Tax-Based Community Affairs identify the need for greater resources for smaller communities to allow them to respond to the needs of youth and to address other social concerns. In response to the recommendation of the Special Committee, the Honourable Vince Steen, Minister of Municipal and Community Affairs, will make a $1 million fund available for community-sponsored projects. The program will financially assist non-tax based community governments or community supported non-profit organizations to provide programs or services in areas of healthy lifestyles, safety and active living.

We have heard that in order to support community health and well-being, the Government must not lose sight of the need for community recreation facilities. Even though our capital budget is constrained, I am pleased to announce that this Budget contains funding to complete an outdoor skating rink in Colville Lake and a curling rink in Aklavik, to replace an aboveground swimming pool in Fort Providence, and to proceed with a new community arena in Lutselk'e.

Our Government commits a total of $53 million to support public housing and home ownership programs and, including the federal share, we will spend over $100 million to address the housing needs of our residents. For example, residents in a number of small communities have been unable to access the Expanded Down Payment Assistance Program funding for new housing and renovation projects in order to acquire bank financing. This issue has resulted in slower housing development over the past several years in these communities compared to others. The Honourable Roger Allen, Minister Responsible for the NWT Housing Corporation, will introduce additional grant and contribution funding of $1.7 million in each of the next three years through the Independent Housing Program to provide for both new housing and renovations to existing housing in these specific communities.

The Economy

Our vision for a better tomorrow relies heavily on our ability to take advantage of the opportunities provided by rapid economic development.

Responsible management of the Northwest Territories' resources requires that a clear balance be struck between the social and economic benefits of development and the longer-term goals of environmental protection and conservation.

To achieve sustainable growth — to strike the proper balance between economic development and the enduring protection of our environment — the Government must address these often-competing goals. The investments and expenditures contained in this Budget reflect our best effort to achieve the balance prescribed in *Common Ground*.

Both *Common Ground* and the *Non-Renewable Resource Development Strategy* identified transportation infrastructure as critical. This Budget will add to the investments we have already made in this area.

Last May, we submitted *Corridors for Canada* to the federal government for funding through its Strategic Infrastructure Fund. Over the past several months, the Government of the Northwest Territories and our private sector partners have lobbied the federal government vigorously to obtain what we consider our fair share of the Strategic Infrastructure Fund. Although it falls far short of the investments proposed in *Corridors for Canada*, the federal government has committed to invest $20 million in new infrastructure projects over the next four years. This Budget reflects the proposed investment of this funding. If we reach agreement with the federal government, $4.3 million of the federal dollars will be spent in 2003-2004 on the Dempster Highway, on bridges for the Mackenzie Valley winter road and on the Slave Province highway corridor.

The *Corridors for Canada* proposal remains a sound, reasonable and viable plan for the construction of new highway infrastructure in the Northwest Territories that is vital to the further development of our resource-based economy. We will continue to demonstrate that the development of the Northwest Territories contributes substantially to the growth of the national Canadian economy.

The promising partnership formed between the Government of the Northwest Territories and the Deh Cho Bridge Corporation Ltd. for the construction of a bridge over the Mackenzie River at Fort Providence is an excellent example of our strategy of working in partnership to create a prosperous territory for all residents.

Last November, the Government and the Fort Providence Combined Council Alliance signed a Memorandum of Intent mapping out the regulatory, technical, financial and legal steps that the parties need to take to conclude a full, legally binding agreement to build the bridge. We expect to have that agreement by the third quarter of this year and expect construction to start soon after signing the Agreement. The idea of year round, uninterrupted travel across the Mackenzie

River is something the people who live on the north side of the Mackenzie River have looked forward to for many, many years. It may become a reality much sooner than anyone ever imagined. I am pleased to report that we are proceeding along quite well. Still, there is much yet to be done. There is $250,000 in this Budget proposed for the Deh Cho Bridge Project. I will be introducing legislation this Session to make this partnership a reality.

This Government will work to ensure that businesses and workers in the Northwest Territories benefit from the development of our natural gas reserves and the construction of a Mackenzie Valley gas pipeline.

This Budget includes more than $1 million to support the Mackenzie Valley Development Project. This funding will be directed toward projects such as community-based entrepreneurial training and workplace-based training, human resource development, worker mobility, promotion of value-added oil and gas industries and building capacity within the Aboriginal community.

Mr. Speaker, a key element in the balance we seek between economic development and the preservation of our natural and cultural heritage is the enhancement of the traditional economy, which includes fur harvesting, arts and crafts, and cultural tourism. Elements of the traditional economy are especially appropriate for smaller communities. This priority was stressed in *Common Ground*, as well as the *Northwest Territories Protected Area Strategy*.

In the Northwest Territories, trappers are seeing higher prices for their pelts. To take full advantage of these market conditions, the Department of Resources, Wildlife and Economic Development has announced an expansion of the Fur Price Program to include all species. Further improvements to provide trappers with greater income security will be announced in the spring.

The Environment

Mr. Speaker, this Government remains committed to protecting the environment for future generations. For the duration of the term of this Assembly, we will work to ensure programs reflect the important balance between environmental management and resource development.

This Government clearly supports the Kyoto Protocol and over the next year will continue to work with federal, provincial, territorial and municipal governments to implement it. We will also take advantage of further partnership opportunities with Canada to implement new programs to help control our emissions of greenhouse gases.

Last year, we invested more than $150,000 to improve air quality monitoring capability in the Mackenzie Valley and in Yellowknife. New air quality monitoring stations are being established in Norman Wells and Inuvik, and existing stations in Fort Liard and Yellowknife are being significantly upgraded.

Aboriginal organizations and governments must be confident that the potential impact of development on wildlife and the environment can be measured, managed and mitigated.

In the coming year, we will invest $1 million to help secure biophysical baseline data needed for the environmental review of oil and natural gas development activities and to support effective monitoring programs following development.

Through the Western NWT Biophysical Study, the Government of the Northwest Territories will continue to work with communities, Aboriginal organizations, wildlife management boards, industry and federal departments to jointly identify and fund the necessary scientific and community-based studies.

This Government is also committed to continuing to work closely with industry, Aboriginal groups, the Government of Nunavut, and DIAND to ensure that an effective and efficient monitoring program is implemented in the Slave Geological Province.

Mr. Speaker, everyone has a role to play in energy conservation. Conserving energy not only saves money, it also protects the environment. This year, we will make $300,000 available to departments, municipalities and non-profit organizations to undertake building energy retrofits.

Finally, the Arctic Energy Alliance has been contracted for the delivery of energy awareness messages, technical advice and energy building audits for the government, public schools and northern businesses. This annual investment of $280,000 is expected to lever a further $295,000 in similar programs from Natural Resources Canada and the federal Climate Change Secretariat.

The funding provided in this Budget, whether for new initiatives or additional funds for established programs, serve to further this Government's vision to create a better tomorrow.

CONCLUSION

Mr. Speaker, when the Fourteenth Assembly took office, we were facing considerable fiscal challenges, very similar to those we face today. The Fifteenth Assembly will face, just as we did, the issue of inadequate revenues, rising expenditure needs and restrictive borrowing limits. However, during our term we have moved forward substantially. The Fifteenth Assembly will be in a position to benefit from the substantial investments made by this Government in promoting and coping with resource development, in addressing critical social issues, in advancing devolution and resource revenue sharing and in building constructive partnerships with Aboriginal governments.

The future of the Northwest Territories is bright. We are still on the right track. We have considerable challenges ahead of us in achieving the goals we have set for ourselves. It is by working together that we will succeed.

BUDGET **ADDRESS**

NORTHWEST TERRITORIES 2003 - 2004

BUDGET PAPERS

A ◆Economic Review

B ◆Fiscal Review

February 13, 2003

NORTHWEST TERRITORIES ECONOMIC OUTLOOK

Non-renewable resource development continues to drive the Northwest Territories economy. In 2001, the NWT led Canada in economic growth for the second consecutive year, with a 19.2 per cent increase in real gross domestic product (GDP). The construction of the NWT's second diamond mine and oil and gas exploration activity were the main contributors to the high growth.

While this growth will not be repeated in 2002, the NWT economy is buoyed by mining sector activity and remains strong. Real GDP in 2002 is forecast to grow only 1.4 per cent and remain relatively level at 0.8 per cent in 2003. This levelling off reflects the drop in business investment from the high levels of 2001 due to the completion of the NWT's first two diamond mines and is not an indication of a slowing economy.

Proof of the robust NWT economy is demonstrated by the fact that real GDP is not expected to decline in 2003 despite a large decrease in business investment. Strong growth in exports, in particular diamond exports, is expected to compensate for the drop in investment. Prices are up for non-renewable resources, providing good news for the resource sector. Export values are expected to increase 2.9 per cent in 2002 and 10 per cent in 2003. By 2004, real GDP is expected to be 11 per cent higher than 2001 levels.

While mining developments are the big story in 2002, other sectors of the economy are also healthy and continuing to grow. Oil and gas exploration and related activity are making a significant contribution to the growth in the NWT economy. Although the 2002 results of the GNWT's annual road tourism survey are not finalized, preliminary results show highway tourism grew 22 per cent from 2001. In 2001-02, more than 32,000 people visited the NWT and injected $34 million into the economy.

Investment in the housing sector has more than doubled in 2002 without appearing to have lessened the demand for housing. Housing investment is not expected to slow in the near future.

Strong economic activity has kept the NWT employment rate at the highest in Canada for the second year in a row. The NWT unemployment was 6.5 per cent in 2002, the fourth lowest provincial/territorial rate.

The statistics describe a strong and dynamic economy. The momentum exhibited in the economy promises a bright future for the NWT.

Northwest Territories Economic Indicators

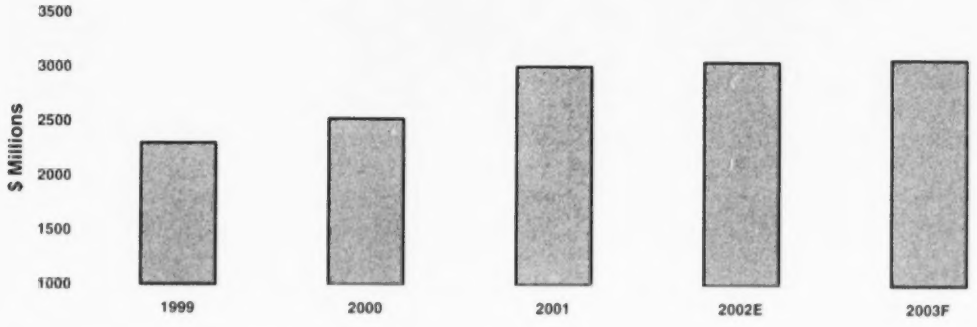
INDICATOR	2000(A)	2001(A)	2002(E)	2003(P)
Gross Domestic Product Chained (1997) Dollars	2,527	3,011	3,053	3,078
(% Change)	10.0	19.2	1.4	0.8
Total Investment Chained (1997) Dollars	885	1,489	1,337	707
(% Change)	39.8	68.2	-10.2	-47.1
Consumer Expenditures Chained (1997) Dollars	896	923	955	1,005
(% Change)	3.1	3.0	3.5	5.2
Government Expenditures Chained (1997) Dollars	928	985	1,045	1,087
(% Change)	-4.0	6.1	6.1	4.0
Exports Chained (1997) Dollars	1,417	1,581	1,627	1,790
(% Change)	15.9	11.6	2.9	10.0
Imports Chained (1997) Dollars	1,531	1,855	1,805	1,489
(% Change)	12.5	21.2	-2.7	-17.5
Employment (Number of Persons)	n/a	20,700	21,000	21,500
(% Change)	n/a	n/a	1.4	2.4
Avg. Weekly Earnings ($)	822	860	880	925
(% Change)	n/a	4.6	2.3	5.2
CPI (Yellowknife, 1992 = 100)	111.2	113.0	116.3	119.3
(% Change)	1.7	1.6	2.9	2.6

Sources: Statistics Canada
NWT Department of Finance
NWT Bureau of Statistics

(E) Estimated by NWT Department of Finance
(P) Projected by NWT Department of Finance
(A) Actual per Statistics Canada

Note: Average weekly earnings in 2000 and 2001 represent combined data for the Northwest Territories and Nunavut.

Real Gross Domestic Product
(Chained, 1997)



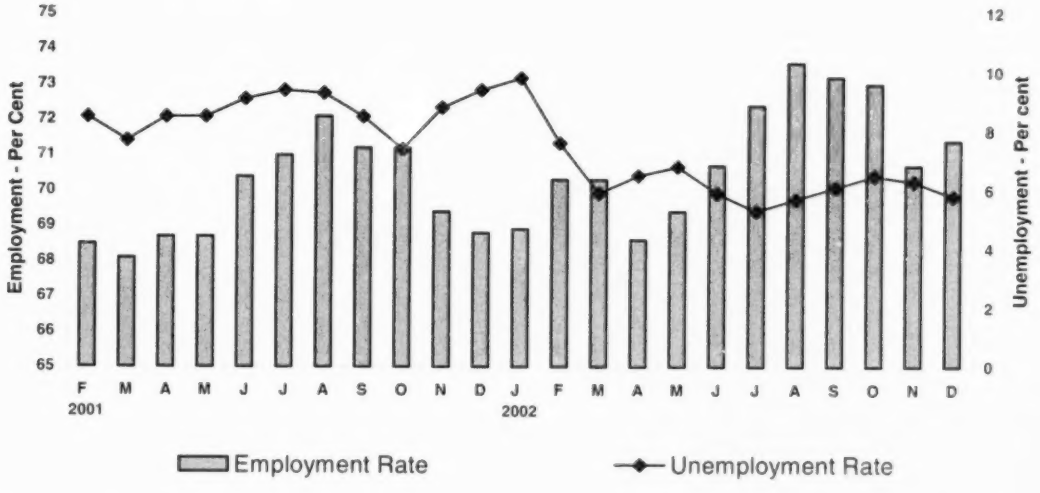
Source: 1999, 2000 and 2001 are from Statistics Canada. 2002E and 2003F are from NWT Finance

EMPLOYMENT

On average in 2002, of the 29,500 NWT residents 15 years of age and older, 21,000 persons were employed, representing an overall employment rate of 71.2 per cent.

There were 700 less people unemployed in 2002 compared to 2001. The Northwest Territories unemployment rate has remained consistently below the national average since February 2002. The Northwest Territories ended 2002 with an unemployment rate of 5.8 per cent for December compared with an average unemployment rate of 7.1 per cent for Canada for the same month.

Labour Market



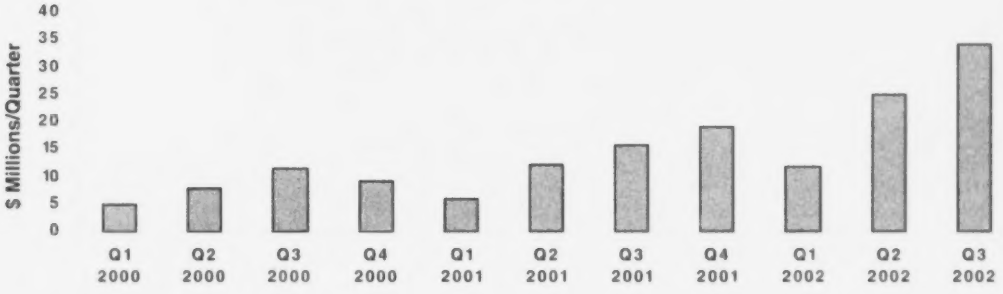
Source: Statistics Canada Labour Force Survey

INVESTMENT

The increase in expenditures for housing construction in 2002 was dramatic. $70.7 million was spent in the housing sector in the first three quarters of 2002, compared to $33.5 million for the first nine months of 2001. This represents an increase of approximately 111 per cent.

Most of the housing construction activity was centred in Yellowknife. The value of NWT residential building permits increased over 92 percent from 2001 to 2002. The value of residential building permits in Yellowknife increased 200 per cent and the Yellowknife share of the total residential permits increased from 44 per cent in 2001 to 69 per cent in 2002. Investment in the housing sector is expected to remain strong in 2003.

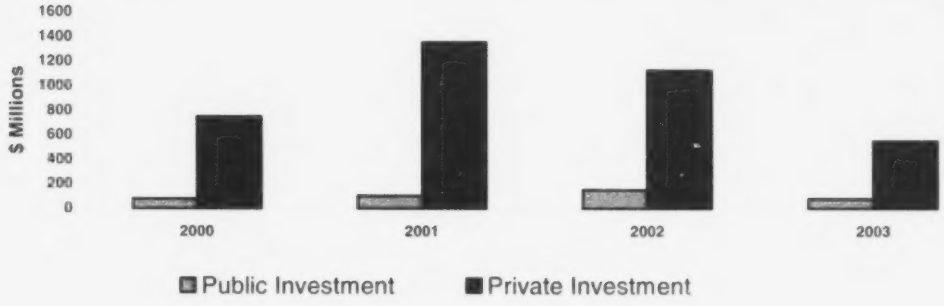
Housing Investment



Source: Statistics Canada

Private investment increased 81 per cent from 2000 to 2001 but is expected to decrease 17 per cent in 2002 as construction of the NWT's second diamond mine is completed early. Private investment is forecast to decrease 51 per cent in 2003 as it comes off the high levels created by large-scale resource developments, including diamond mine construction.

Public and Private Investment



Source: Statistics Canada, NWT Finance

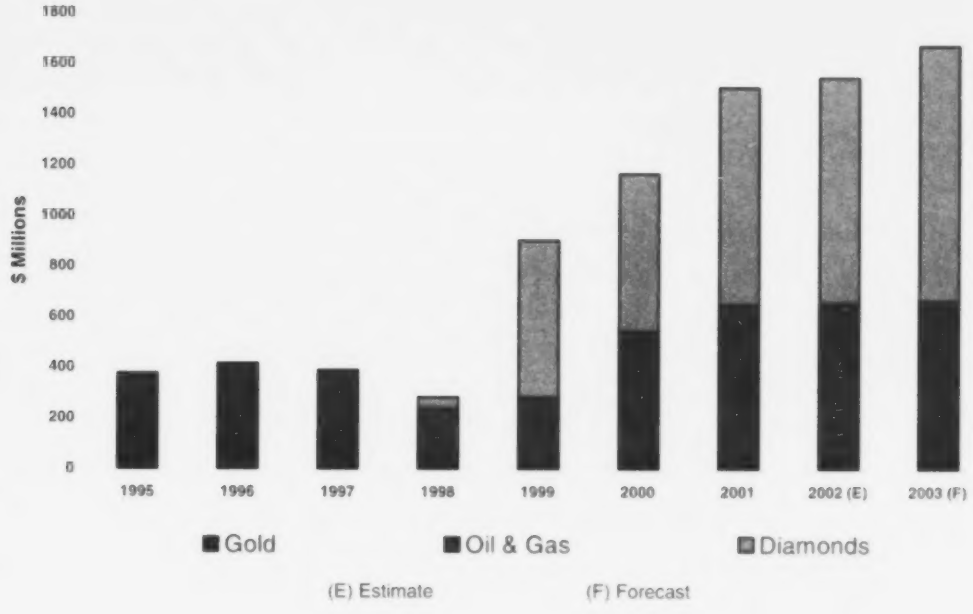
Note: 2000 and 2001 figures are actuals, 2002 amounts are based on Statistics Canada's survey of intentions and 2003 is a NWT Finance forecast.

Government investment increased 17 per cent from 2000 to 2001 and 46 per cent from 2001 to 2002, primarily due to increases in GNWT capital investments. The GNWT increased capital investment by $53 million in 2001 and another $45 million in 2002. Seventy-one per cent of the 2001 increase in GNWT capital investment was for hospitals and correctional facilities, in particular investment in the Inuvik hospital. This share of the increase was reduced to 29 per cent in 2002 as construction of the hospital in Inuvik was completed. Twenty-three per cent of the 2001 increase and 37 per cent of the 2002 increase was for investment in transportation infrastructure. The GNWT's capital investment will decrease 48 per cent to $74 million in 2003-04.

Mining and Oil and Gas Exploration

The mining and oil and gas extraction sector is the dominant force in the NWT economy. Diamond production is the big story in the NWT mining sector with a 57 per cent share of the value of total NWT mining and oil and gas extraction. Two diamond mines are now completed and producing over 6 per cent of the world's diamonds in value. Diamond production increased 46 per cent from 2000 to 2001 and a further 11 per cent increase is expected in 2002. However, the value of the diamond production increased only 37 per cent from 2000 to 2001 and is expected to increase 4 per cent in 2002.

Value of Gold, Diamonds, Oil and Gas Production



Source: Statistics Canada, NWT Resources, Wildlife and Economic Development

Note: Data excludes Nunavut for all years.

Oil and gas extraction activities are approximately 40 per cent of the value of the NWT total mining and resource extraction sector. Natural gas production decreased 18 per cent from the first 11 months of 2001 to the first 11 months of 2002. However, it is important to note that production by the end of November 2002 still remains 70 per cent higher than by the same time in 2000. Oil production decreased 3.4 per cent from the first 11 months of 2001 to the first 11 months of 2002.

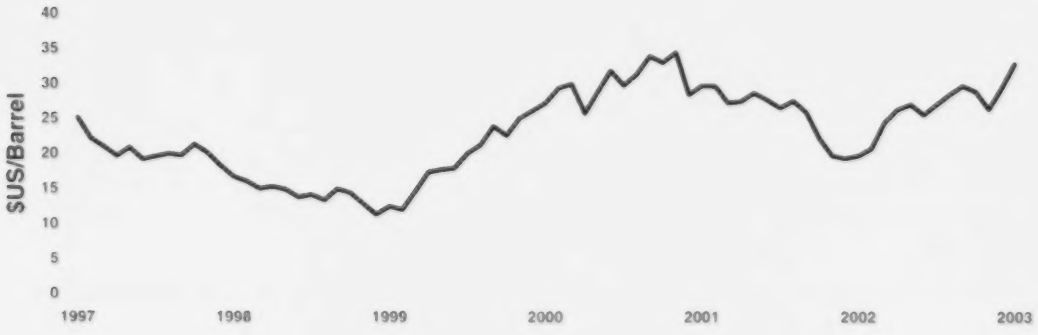
Oil and gas exploration has been steadily increasing. However, total exploration expenditures are expected to decline in the winter of 2002-03, primarily as exploration in the Mackenzie Delta is postponed until closer to a time when the natural gas can get to market. In other areas, exploration levels are unchanged, and in the Fort Liard region, where there is access to southern markets, activity is high.

Gold mining represents 4 per cent of the value of the NWT mining and oil and gas extraction sector.

COMMODITY PRICES AND EXCHANGE RATES

Commodity prices in general have picked up since the low prices experienced in late 2001. The price of crude oil has dropped more than $5.00 since its high of November 2000 but is $10.00 higher than the December 2001 low. The average price for December 2002 was 29.35 $US/bbl compared to 19.32 $US/bbl for December 2001. Prices are expected to remain strong entering 2003 due to the current geopolitical instability in major oil producing countries.

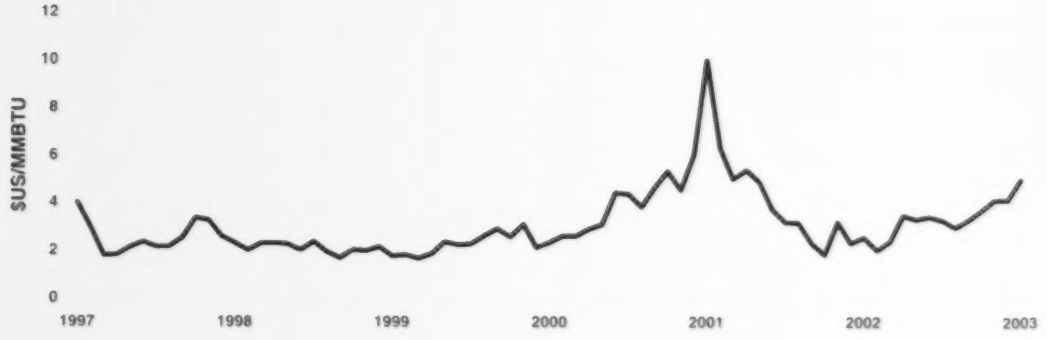
West Texas Intermediate Crude Oil Price



Source: Sproule Associates Limited

Natural gas prices continued to increase throughout 2002 rising from the low prices seen at the end of 2001. Natural gas finished the year with an average price of 3.22 $US/MMbtu, a $1.39 increase from the 2001 low of $1.83 but a decline from the average 4.27 $US/MMbtu for 2001.

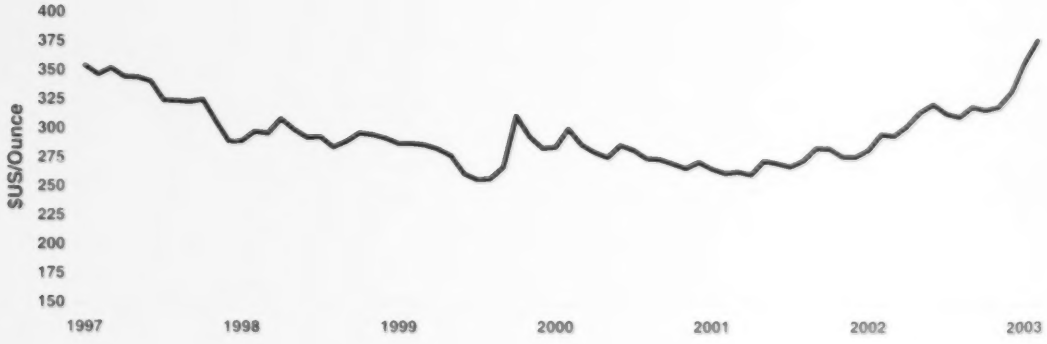
Natural Gas Prices
Henry Hub NYMEX



Source: Sproule Associates Limited

Gold prices are their highest since 1996 at US$376.55 per ounce as of February 4, 2003. Prices continue to remain strong into 2003 as speculators invest in the security of gold as tension builds in the Middle East.

Gold Prices

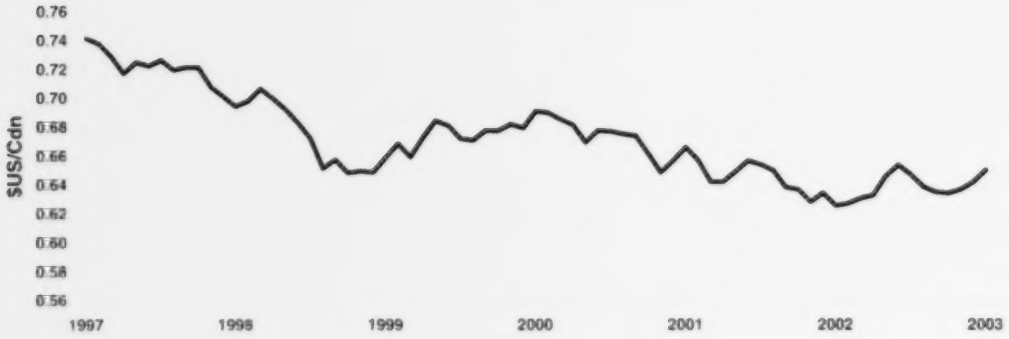


Source: Kitco Precious Metals

Note: The last 2003 data point is from February 4, 2003. All other data points are monthly averages.

The Canadian dollar has increased from its all time low of US$0.618 on January 21, 2002. The average value of the Canadian dollar in 2002 was US$0.637. This low value relative to the United States dollar has maintained the strength of the Canadian dollar export value.

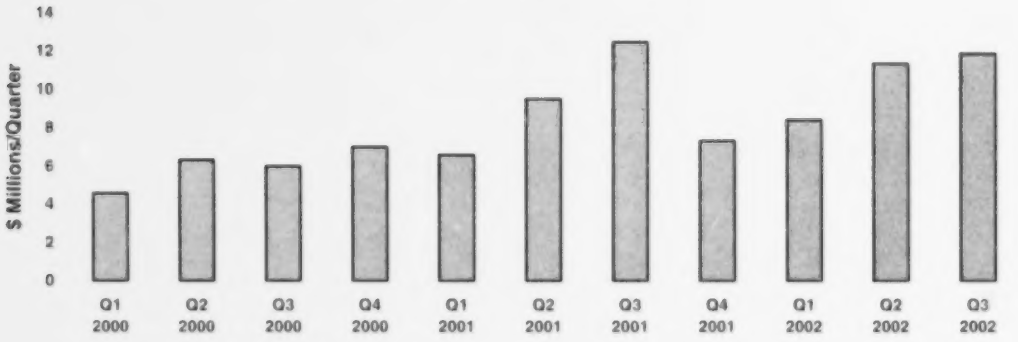
U.S.- Canada Exchange Rate



Source: Sproule Associates Limited

As the value-added industry for diamonds continues to expand in the Northwest Territories, manufacturing shipments share of export values grow. Shipments were up 9.6 per cent in the first three quarters of 2002 compared with the same time period of 2001.

Manufacturing Shipments



Source: Statistics Canada

RENEWABLE RESOURCE SECTOR

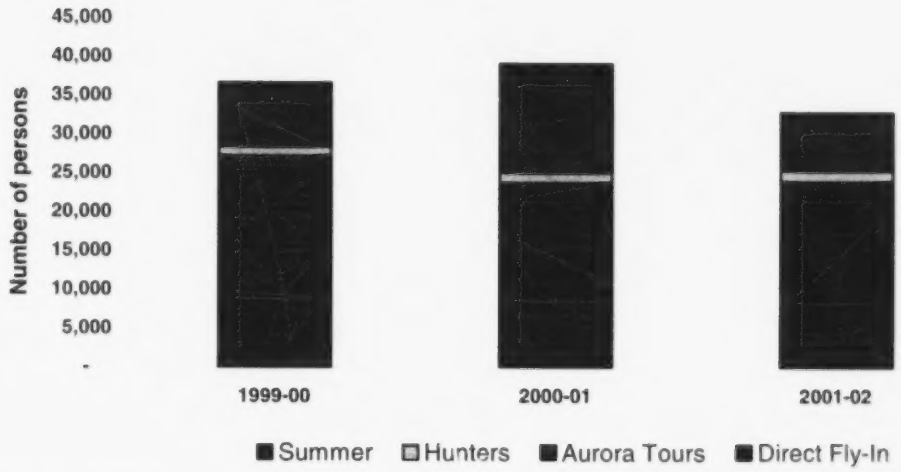
Tourism

The total number of visitors to the Northwest Territories dropped 16 per cent from 39,044 in 2000 to 32,833 in 2001. The drop in visitors was the result of a 50 per cent decrease in visitors participating in Aurora tours. This decrease was primarily a reaction to the September 11, 2001 terrorist attacks in the United States.

The value of tourism to the Northwest Territories economy is estimated to have decreased $11 million or 25 per cent from 2000 to 2001, mainly due to the decline in Aurora tour visitors, but also due to a decline in spending by hunters.

The Department of Resources, Wildlife and Economic Development's 2002-03 visitor survey is not complete. However, preliminary results show road-based tourism is up 22 per cent from 2001. In addition, the number of Aurora tour Japanese visitors has increased, suggesting that the tourism industry will provide a strong performance in 2002-03.

Visitors to the Northwest Territories

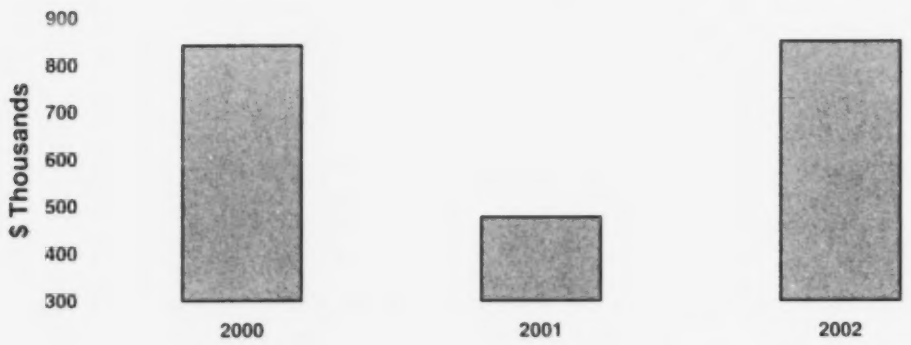


Source: NWT Resources, Wildlife, and Economic Development

Fur

The total number of pelts produced increased 41 per cent from 2000 to 2001. Higher prices for furs meant the value of the pelts produced increased 78 percent to almost $850,000. The pelts with the greatest market share in 2001 were marten, seal, lynx, wolf, white fox and beaver.

Total Value of Pelts, for Year Ending June 30



Source: NWT Resources, Wildlife, and Economic Development

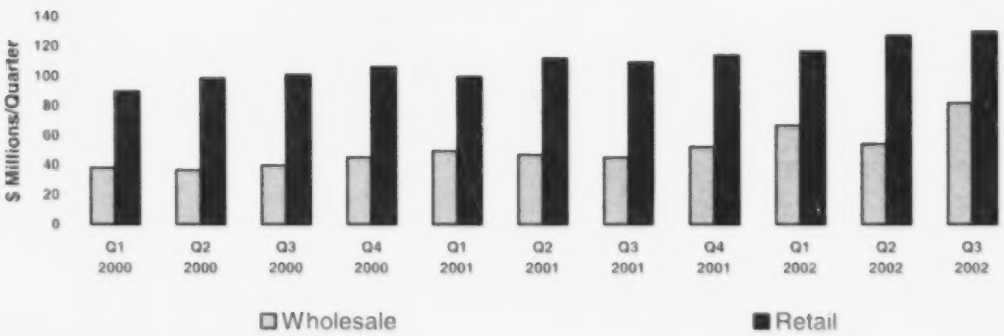
Commercial Fishery

The latest data available from the federal Department of Fisheries and Oceans shows the Northwest Territories caught 1,273 tonnes of freshwater fish commercially in 1999, 3.1 per cent of the freshwater total. The total value of the 1999 NWT commercial fishery was over $1.3 million, or 1.6 per cent of the Canadian total.

TRADE

The level of retail and wholesale trade has increased significantly over the last year as consumers have been provided with additional spending power through higher average employment earnings. The first nine months of 2002 saw an increase of 16.8 per cent in retail trade when compared with the first nine months of 2001. Wholesale trade grew an impressive 43.3 per cent over the first three quarters of 2002 in comparison to the same period of 2001.

Retail and Wholesale Trade
(Seasonally Adjusted)



Source: Statistics Canada

FISCAL REVIEW

Large one-time revenues in 2000-01 and 2001-02 have allowed the government to make some necessary investments in capital infrastructure and the social well-being of Northwest Territories' residents. However, revenues have returned to historical levels and the GNWT is again in a position where expenditures exceed revenues. Rising costs of current programs and the increasing need for investment in infrastructure and in addressing the costs associated with development mean careful consideration must be given to new initiatives and investments.

2001-02 Final Results

2001-02 revenues were $957 million and expenditures only $837 million, leaving the GNWT with an operating surplus of $120 million. A large one-time corporate income tax payment was the main reason for the large increase in revenues.

2002-03 Revised Estimates

The revised 2002-03 revenue forecast predicts 2002-03 total revenues to be $82 million lower than the 2002-03 Main Estimates, decreasing from $856 million to $774 million. The $106 million decrease in the Formula Financing Grant forecast and the $7 million decrease in other transfers more than offsets an increase in GNWT own source revenues of $31 million.

There are two main reasons for the decrease in the forecast of the Grant:

- changes to the population estimates lowering both prior years and ongoing entitlements, and
- increases in provincial-local government tax effort, which translates into a lower Grant.

2002-03 corporate income tax revenues are $15 million higher than forecast in the 2002-03 Main Estimates as a result of higher than expected corporate income tax collections for the 2001 tax year and a higher federal forecast for 2002 corporate income. However, as federal estimates are based on prior year tax revenues, it is expected that the GNWT will be required to repay a large portion of these revenues in 2003-04. Until actual corporate income tax assessments are received for 2002, the effect of the July 1, 2002 corporate income tax rate reduction on investment is unknown.

Operating expenditures are 4.2 per cent higher ($36 million) than estimated in the 2002-03 Budget. The majority of the supplementary expenditures were for health and education programs.

Capital investment expenditures are expected to be 31 per cent higher ($34 million) than projected in the 2002-03 Budget and $45 million higher than 2001-02 actual capital investment expenditures.

The decrease in revenues and increase in expenditures changed the $12 million deficit forecast in the 2002-03 Budget into a forecast deficit of $106 million. The higher capital investment expenditures and increased deficit will reduce the $338 million cash surplus at the end of 2001-02 to $45 million at March 31, 2003. The total debt at the end of 2002-03, including that of the NWT Power Corporation and the NWT Housing Corporation, is forecast to be $142 million.

2003-04 Budget

Revenues

Total 2003-04 revenues are expected to increase $80 million to $854 million. Forecasting revenues for 2003-04 was complicated by the effect of the one-time corporate income tax payment received in 2001-02. The Formula Financing Grant from Canada is expected to almost triple from $281 million in 2002-03 to $809 million in 2003-04 due to prior year adjustments relating to corporate income tax. Total own source revenue will be negative in 2003-04 as the large overpayment of 2002-03 is returned.

Repayment of the 2002-03 Finance Canada's overestimate of corporate income tax has very interesting consequences for the composition of total GNWT revenues. The Formula Financing Grant from Canada, which historically is less than 80 per cent of GNWT total revenues, will rise to 94 per cent of revenues in 2003-04. Since the overestimate of 2002-03 corporate income served to reduce the 2002-03 Formula Financing Grant, the repayment will result in a large positive adjustment to the Grant in 2003-04. Other transfers, at 7 per cent, remain at their historical share of total revenues.

GNWT own source revenues include taxes, liquor profits, regulatory revenues (revenues from fees and licences), rental income, power subsidy recoveries, sales of government assets and sales of goods and services.

A forecast 4.6 per cent growth in employment income in 2003 will increase the GNWT's forecast personal income tax revenues to $51 million in 2003-04.

Corporate income tax revenues are forecast to decrease $461 million from the revised forecast for 2002-03. The GNWT will be required to pay $182 million to Canada in 2003-04 as actual 2002-03 corporate tax collections prove to be much lower than Finance Canada estimates.

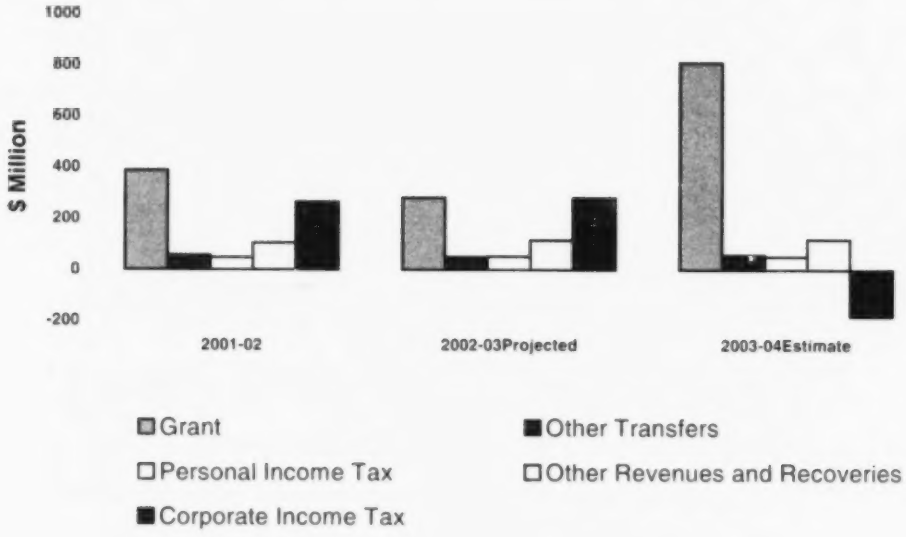
Tobacco tax revenues are forecast to increase $2.6 million in 2003-04 due to anticipated increases in the tax rates for tobacco.

2003-04 fuel tax revenues are expected to increase by $558,000 as economic growth results in increases in fuel consumption.

Increases in payroll tax revenue forecast reflect projected increases in employment income.

Property tax revenues will remain the same.

Total GNWT Revenues by Source

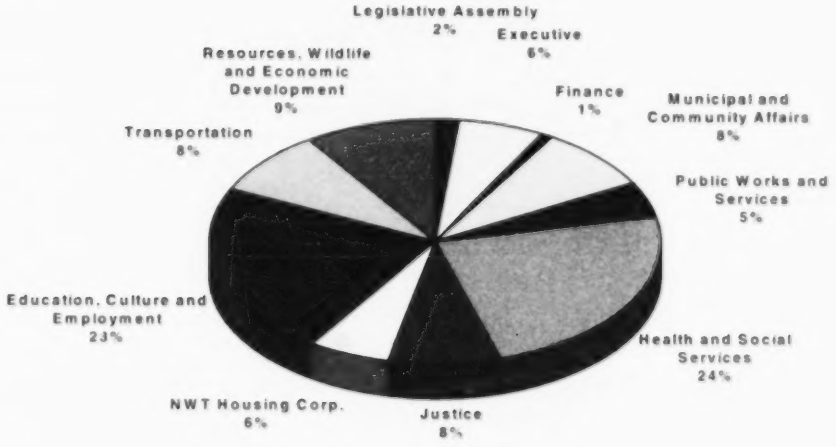


Operating Expenditures

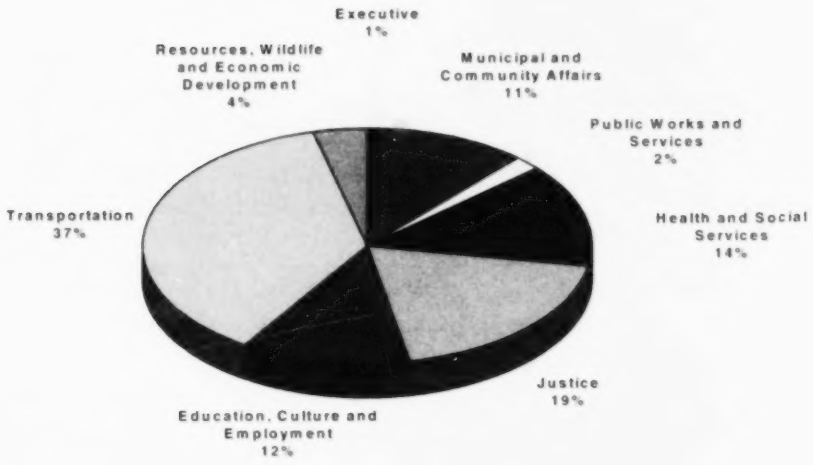
Operating expenditures are projected to increase by $35 million to $924 million in 2003-04. The 4 per cent increase is due primarily to increased costs of existing programs, particularly in health care spending.

Most territorial spending is in the area of social and community programs: education, health, social services, justice, housing and support for communities. These programs represent almost 70 per cent of the GNWT's annual budget.

Operations Expenditures by Department 2003-04



Capital Investment Expenditures by Department
2003-04



Capital Investment Expenditures

Total capital investment expenditures are expected to decrease 48 per cent from $143 million in 2002-03 to $74 million in 2003-04. Over 80 per cent of 2003-04 capital investment expenditures are in the areas of transportation, justice, health, social services, and education.

Capital investment expenditures for the Department of Transportation will total $27 million, of which $12.7 million is for highway construction. The Mackenzie Valley winter bridges require capital investments of $3.8 million and $1 million will be used for public access roads to highways. If an agreement is reached with the federal government with respect to the Strategic Infrastructure Fund, $4.3 million of federal dollars will be used to rebuild sections of Highways 4, 8 and the Mackenzie Valley winter bridges.

Airports will receive $6.5 million for various capital investments. The federal government will be contributing $4.2 million in 2003-04 under the federal Airports Capital Assistance Program.

Total 2003-04 capital investment expenditures for the Department of Health and Social Services are budgeted at $10.5 million, composed of $2.9 million in community health programs and $7.6 million for health services programs. Most of the community health program capital expenditures will pay for investments in information systems such as the patient and hospital scheduling system. Included in the health service programs are $2 million for the health centre at Sachs Harbour, $1.7 million for the health centre in Holman and $1.4 million for the regional hospital in Inuvik.

Capital work on the North Slave Correctional Centre will require $13.4 million of the $14.1 million capital budget of the Department of Justice.

The Department of Education, Culture and Employment intends to invest $9.1 million in capital investment expenditures in 2003-04. These expenditures are distributed among various schools, educational and cultural facilities. The largest investments are $2.8 million for the new Aurora College campus in Inuvik, $1.0 million for the Chief Albert Wright School in Tulita, and $2.9 million for the Prince of Wales Heritage Centre.

There will be an additional $8.1 million in capital investment in the smaller communities of the NWT under the capital budget for the Department of Municipal and Community Affairs. Included in this expenditure will be over $5.5 million investment in water treatment and sewage facilities, $1.2 million for a curling rink in Aklavik and $1.2 million for an arena in Lutselk'e.

MEDIUM TERM OUTLOOK

With the exception of larger deficit forecasts, the medium term fiscal outlook for the GNWT has not changed from the outlook described last year at this time. As revenues return to historical levels following the one-time increases in 2000-01 and 2001-02, expenditures will exceed revenues, returning the GNWT to a deficit position and increasing the GNWT debt. The surpluses accumulated during the 2000-01 and 2001-02 fiscal years are less than the revenue needed to finance these deficits.

Revenues in 2004-05 are expected to increase $34 million, or 4 per cent, from $854 million in 2003-04 to $888 million in 2004-05. At the same time, expenditures are projected to increase 4.5 per cent, or $42 million to reach $973 million. The shortfall between revenues and expenditures will create an $85 million operating deficit in 2004-05. The projected 2004-05 deficit will cause the GNWT to exceed its authorized borrowing limit of $300 million.

The following year revenues are expected to increase 4.6 per cent while expenditures increase 4.8 per cent, producing a $91 million deficit.

Fiscal Framework Operations Summary

(millions of dollars)

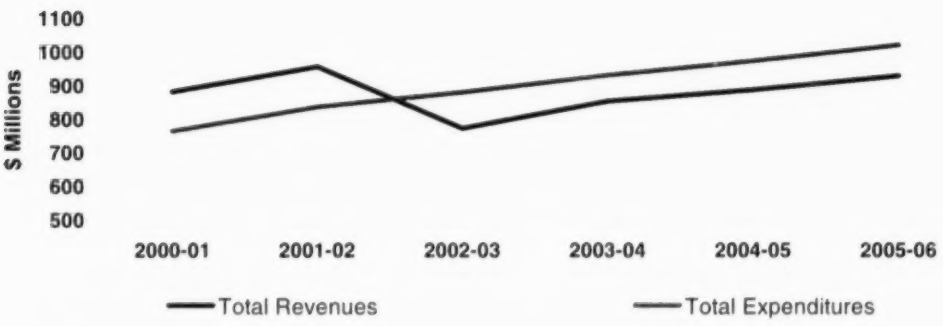
	2001-02 Actuals	2002-03 Revised Estimate	2003-04 Main Estimates	2004-05 Forecast	2005-06 Forecast
Total Revenues	957	774	854	888	929
Total Expenditures	(837)	(881)	(931)	(973)	(1,020)
Operating Surplus (Deficit)	**120**	**(107)**	**(77)**	**(85)**	**(91)**
Capital Investment Requirements	**98**	**143**	**74**	**71**	**69**
Accumulated Cash Surplus (Deficit)	**338**	**45**	**(85)**	**(247)**	**(428)**
Total Debt	**(132)**	**(142)**	**(214)**	**(370)**	**(544)**

Revenues

Over the medium term, the major GNWT tax revenues, including personal income tax, tobacco tax, fuel tax, property tax and payroll tax, are expected to grow. Corporate income tax revenue will decrease significantly in 2003-04 as the expected overpayment in 2002-03 is repaid, but will return to a position of growth in future years. The Formula Financing Grant from Canada will decrease dramatically in 2004-05 as the effect of the 2002-03 over-estimate of corporate income tax collections finally works through the system, and revenues return to historical levels.

Based on current projections, it is expected that ongoing GNWT revenues will not meet the Government's growing expenditure demands.

Expenditure Growth Outpacing Revenue Growth



Risks to Revenue Forecasts

All revenue forecasts involve an element of uncertainty. The risk to the GNWT revenue forecast is due mainly to the Formula Financing Grant from Canada estimate since it represents between 60 and 80 per cent of GNWT total revenues in a typical year.

Territorial formula financing arrangements were meant to fill the fiscal gap between the GNWT's expenditure needs and its ability to raise revenues. Each year's Grant is determined by reducing the Formula's Gross Expenditure Base (a proxy for expenditure needs) by the territory's adjusted own source revenues (fiscal capacity). Estimates of the Formula Financing Grant can change as a result of revisions and updates to a number of variables. The most significant changes that affect the Grant calculation are:

- revisions to the data series used to calculate the Gross Expenditure Base (GEB) escalator (these series include provincial/local (PL) government spending, Canadian nominal GDP, and population growth in both the NWT and Canada),
- changes made to the Tax Effort Adjustment Factor, which is used to adjust GNWT own-source revenues, and
- changes to GNWT own source revenues.

1. Population Risk Factors

The NWT population growth estimates used in the Formula Financing Grant forecasts can have a significant effect on the amount of the Grant's GEB. The three-year moving average of the ratio of NWT population growth to the growth in the Canadian population is half of the escalator used to calculate the increase in the GEB.

The current Formula Financing Grant forecast for 2003-04 to 2005-06 relies on NWT population estimates and forecasts from the NWT Bureau of Statistics. The NWT Bureau of Statistics estimates are based on the census assessment completed over the past several months that indicated a total NWT population 4,820 persons more than the 2001 census results. It should be noted that if Statistics Canada's final coverage-adjusted census figures incorporate an undercount estimate one percentage point different from the NWT Bureau of Statistics estimate, the Grant estimate would be different by approximately $50 million over the 2003-04 to 2005-06 period.

The population forecasts for the 2003 to 2006 period suggest strong growth for the NWT of 2.6 per cent in 2003 with the start of operations at the Diavik diamond mine, followed by growth of 1.4 per cent in subsequent years.

2. Provincial/Local Government Escalator and GDP Ceiling

The Provincial/Local Government Expenditure Escalator (PL) is the other half of the GEB escalator and is subject to a GDP ceiling. The PL escalator measures the growth in total provincial/territorial/local government expenditures and is used as a proxy to measure the growth of territorial expenditure need. The current forecast for the PL growth rate in 2002-03 is 2.8 per cent and in 2003-04 is 4.7 per cent.

The possibility exists that the PL may be lower than currently forecast, if provincial governments restrain expenditures. For example, a 1 percentage point decrease in the PL growth rate for 2003-04 would reduce the 2003-04 GEB by $2.4 million, and by $7 million by 2005-06.

If the PL escalator is greater than the three year moving average of nominal national GDP growth in a given year, national GDP growth is used as the escalator, reducing the Grant. However, in the current forecast period, it is unlikely that this will happen.

3. Tax Effort Adjustment Factor

The Tax Effort Adjustment Factor was introduced into the Formula Financing Agreement in 1990 as a way to ensure that the territorial governments had an incentive to tax at a level comparable to the provinces. Tax effort refers to the extent to which a government uses the tax room available to it. For example, although the GNWT does not levy a territorial sales tax, it has the potential to do so and the fact that the GNWT does not levy a sales tax will be reflected by a higher Tax Effort Adjustment Factor. The higher the Tax Effort Adjustment Factor, the higher the value of revenues subtracted from the Grant and, therefore, the lower the Grant.

The Tax Effort Adjustment Factor applies to all GNWT own source revenues over which the GNWT has control of the rate (for example, taxes and fees). The annual portion of the Tax Effort Adjustment Factor measures the change in provincial tax effort from year

to year and is calculated using the estimates from the federal-provincial Equalization program. These estimates can change significantly as new data becomes available. Consequently, large swings can occur in the Tax Effort Adjustment Factor, which in turn increases or decreases the Grant. As the GNWT own source revenues increase in total value, the effect of the swings will be more significant.

Expenditure Needs

In projecting future GNWT expenditure needs, it is necessary to consider the relationship between population, demographics, and inflation. Many factors, including changes in the overall population, changes to the ratio of dependants (those under 18 and over 64) to the working age population, price changes (especially for health care), the government wage bill and capital investment needs have significant effects on projected overall spending levels.

The GNWT faces fiscal challenges that are heightened by the NWT's large land area; small, geographically-dispersed population; young and growing population; harsh climate; and underdeveloped infrastructure. These factors are reflected in the GNWT's high per capita expenditure needs and place stress on its ability to fund public services comparable to the services in other provinces. The GNWT's fiscal challenges are increased by large-scale non-renewable resource development projects that put pressures on social programs and heightened demands on, and for, physical infrastructure.

The GNWT's goal is to provide public services within its capacity to generate revenues. However, the government is facing a situation where revenue growth is not keeping pace with necessary expenditures. The GNWT must find a balance between making expenditures now at the risk of deficits and increasing debt, with the potential for gains in fiscal well-being in the future. Necessary expenditures include those required to meet the needs of NWT residents today and also to invest in the future. For example, investments in training now will allow Northerners to take advantage of future employment opportunities created by resource development. This in turn can mean more tax revenues from NWT residents employed in the higher wage resource sector.

A similar situation exists for capital investment. If the GNWT does not make investments now in such things as highway infrastructure, the NWT is at risk of losing economic development opportunities. A balance must be struck between working towards balanced budgets and investing for the future. The government's fiscal strategy strives to find that balance.

BUILDING THE FOUNDATION FOR TOMORROW - GNWT S FISCAL STRATEGY

The GNWT's fiscal strategy during the term of the Fourteenth Assembly has been based on the recognition that, in the absence of additional federal investment in the NWT, deficit financing would have to be used if the GNWT wanted to make the investments necessary to ensure that Northerners benefit from resource development. The GNWT's fiscal strategy is to make the investments required to promote, manage and benefit from current and future development of renewable and non-renewable resources without

upsetting the balance between this investment and the expenditures needed for environmental protection and current social programs.

This strategy is based on the assumption that there will be continued economic development in the NWT and that devolution and resource revenue sharing will occur. Until there is a transfer of authority over lands and resources to the appropriate territorial and Aboriginal governments and a resource revenue sharing plan is finalized, the GNWT will continue to try to cope with expenditure pressures that produce unsustainable spending in comparison to revenue. The goal of fiscal sustainability requires a delicate balancing act – one that addresses social and housing pressures and still allows for appropriate investments in transportation and infrastructure. The GNWT must reconcile the necessary expenditures with the goal of balanced investment across regions and in both large and small communities.

The one-time large revenue increases in 2000-01 and 2001-02 have made this balancing act easier for most of the Fourteenth Assembly. However, the fiscal situation has returned to one where revenue forecasts are below spending needs.

Reducing Expenditures

While the GNWT is prepared to finance needed investments and expenditures through deficits, it cannot support deficits as high as those forecast for the medium term. The obvious options available to meet the challenge of matching revenues with expenditures are to reduce program spending through decreased services; reduce program spending through increased program management efficiencies; and increase revenues. The GNWT has established the Corporate Review and Transition Planning Project to explore the expenditure options. The project will identify short and long-term options for government operations. In addition, the project will co-ordinate the development of cost restraint measures that will help to ensure that the GNWT operates within the available financial resources.

Reducing expenditures and finding new efficiencies in cost delivery will not balance the budget. The GNWT wants to create an environment that allows NWT residents to take advantage of economic growth and opportunities, to find stable and meaningful employment, to enjoy high quality public services that support healthy lifestyles, and to enjoy a protected natural environment. Reducing expenditures through decreased services may seriously damage the GNWT's ability to achieve this goal. Reducing services can have unknown long-term negative effects for individuals and the NWT community as a whole. Reducing spending on preventative health measures, for example, may mean increased health costs in the future. Reduced early childhood development programs may rob some children of a chance at a proper education, which in turn deprives the Northwest Territories of residents contributing to their full potential. However, the GNWT will continue to look for ways to reduce expenditures through increased efficiencies.

Increasing Revenues

It is clear that the GNWT will need greater revenue growth in addition to expenditure initiatives. The GNWT revenue forecasts already incorporate the additional tax revenues generated by increased economic activity, net of offsets against the Grant from Canada.

The difficulty in raising revenues is that there must be a balance between the effects of increased revenue with the burden it places on residents. In addition, tax rates must be considered in relation to tax rates in other provinces in order for the NWT to remain competitive. As other provinces lower taxes, the GNWT faces increased pressure to do the same. Consequently, new revenue sources must be explored.

Formula Financing Agreement

The Formula Financing Agreement is not designed to deal with the financial stresses associated with rapid resource development. The design of the Formula Financing Grant might be adequate to fund GNWT programs and services if the GNWT expenditure needs remained similar to those of 1982 when the Formula's Gross Expenditure Base was established. However, growth in the Gross Expenditure Base over time does not provide enough revenue to satisfy the needs of rapid resource development. For example, the Formula does not contemplate the expenditures needed to maintain highways destroyed by resource-related trucking activity.

Nor was the Formula Financing Grant designed to accommodate the investments required to help the Northwest Territories' citizens prepare for the opportunities of large scale economic development, or the extra housing needs, and the extra pressure exerted on existing government programs and services.

The current Formula Financing Agreement expires March 31, 2004. These issues are being discussed with the federal government.

Canada Health and Social Transfer

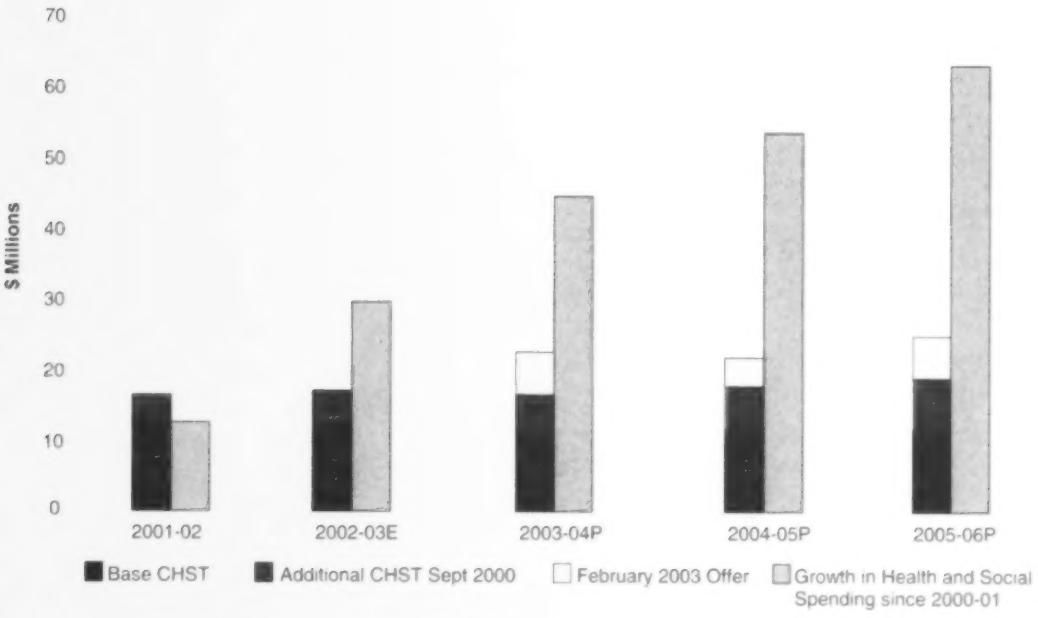
The Canada Health and Social Transfer (CHST) is the main federal government funding vehicle to support provincial and territorial health care, post-secondary education and social services. The CHST is delivered in two parts: a cash component and a tax point transfer component. It is a block transfer that gives provinces and territories the flexibility to allocate spending among social programs according to their priorities, while upholding the principles of the *Canada Health Act* and the condition that there be no period of minimum residency with respect to eligibility for social assistance.

In creating the CHST in 1996, the federal government reduced funding to the provinces and territories for social programs by $3.8 billion. This reduced the federal share of provincial/territorial health care and major social program costs from 18 per cent to 14.2 per cent in 1996-97. Formula financing arrangements meant that this cut in federal funding would not have affected the territories. Consequently, the federal government cut each territory's formula funding by 5 per cent. The cut represented $33 million for the GNWT on a post-Division basis, or $776 per capita. This cut was never restored.

The CHST is allocated to the provinces and territories on a per capita basis. The Northwest Territories' share of the national population is 0.13 per cent. Therefore, for every $1 billion in per capita funding, the Northwest Territories receives $1.3 million. In 2002-03, new per capita CHST funding announced in 1999 and 2000 will be $8 million, or only $195 per capita.

This gap is difficult to accept since the new CHST funding has restored the dollar amount of the 1996-97 cut in funding to the provinces. The Northwest Territories loses $40 million per year from the Grant as a result of the 1996-97 cut to the formula base.

Comparison of Total CHST Cash with NWT Health and Social Spending Growth Since 2000-01



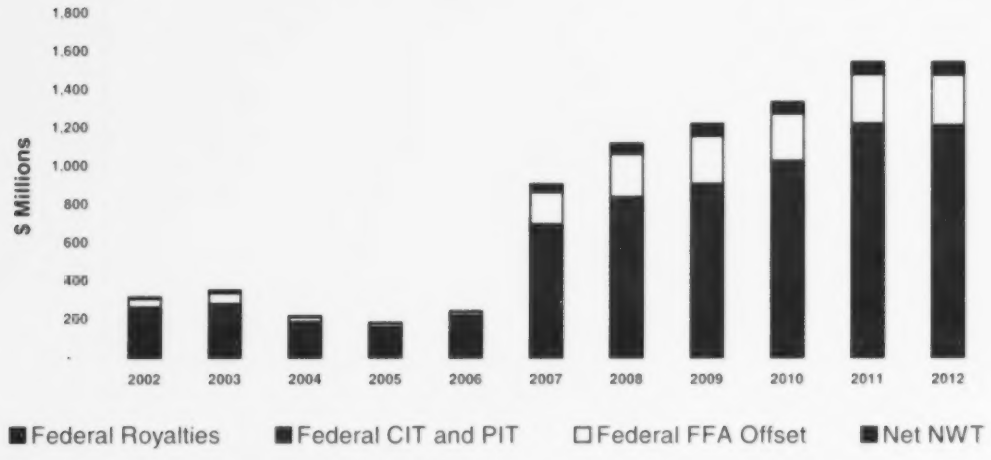
At the February 2003 First Ministers' Meeting, Provincial and Territorial Premiers asked that a separate new Territorial health care fund be established equal to 0.5 per cent per territory of total new federal health care funding. This was in recognition of the fact that providing health care to small populations scattered over vast geographic areas presents severe challenges, as the economies of scale created by larger populations do not exist. In addition, per capita funding does not take into account the higher costs related to the health of the NWT population and higher costs of living in the North. As a result, the Northwest Territories per capita expenditures for health and social services are twice the national average.

At the First Ministers' Meeting, the federal government offered the provinces and territories a total of $12 billion dollars in increased CHST funding over the next three years. Allocated on a per capita basis, this would provide the Northwest Territories with an average of only $5.2 million a year, or about one and one half week's worth of health spending in the NWT. Under the Premiers' proposal, the Northwest Territories would receive an average of $25 million per year. However, the federal government did not accept this proposal.

Devolution and Resource Revenue Sharing

Most new revenues will come in the form of resource revenues. Currently, the federal government receives all the royalties from non-renewable resource activities in the Northwest Territories. Resource revenue sharing is part of the negotiations for devolution. Further, territorial tax revenues generated by the resource sector activity are offset by reductions in the Formula Financing Grant. Therefore, the net fiscal benefit of

Federal and NWT Net Royalty and Tax Projections from Anticipated Resource Developments (Net Total Revenues After Offset)



Canada's Share: 96% **NWT Share: 4%**

resource development for the NWT is small. At the same time, the expenditure pressures generated by rapid resource development are huge. A process is underway to devolve provincial-like authorities and responsibilities for non-renewable resource development to the GNWT and NWT Aboriginal governments.

Strategic Partnerships

The GNWT advocates that the federal government should play a larger role in developing the North. Resource development in the Northwest Territories benefits all of Canada. For this reason, the GNWT lobbied federal Ministers on the GNWT's Strategic Infrastructure Fund proposal: *Corridors for Canada*. The GNWT's proposal included a highway and bridge investment program of $200 million over four years with a federal share of $133 million and a GNWT share of $66 million. The package also proposed additional industry contributions of $43 million primarily through tolls on the proposed Deh Cho bridge. The proposal was based on infrastructure requirements identified in the GNWT's *Non-Renewable Resource Development Strategy*.

Federal investment will provide concrete benefits to both the Northwest Territories and Canada. Federal investment would accelerate and facilitate diamond mine, natural gas and pipeline developments in the Northwest Territories which benefit all of Canada and particularly Alberta, British Columbia, and Ontario. For example, an economic analysis completed in 2002 estimates that a Mackenzie Valley gas pipeline and economic spin-offs will add between $40.8 and $57 billion to Canada's gross domestic product and earn the federal government up to $18 billion in revenue. More than 157,000 person-years of employment would be created over the lifetime of the project.

To date, the federal government has committed $20 million toward transportation highway infrastructure in the Northwest Territories from the *Strategic Infrastructure Fund*.

Summary of Operations

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
REVENUES	**854,135**	**774,475**	**856,120**	**957,444**
OPERATIONS EXPENSE				
Compensation and Benefits	180,951	173,060	164,856	180,153
Grants and Contributions	462,566	434,374	417,642	396,772
Other Expenses	235,118	240,683	230,290	222,113
Amortization	45,356	40,698	40,200	38,142
TOTAL OPERATIONS EXPENSE TO BE VOTED	**923,991**	**888,815**	**852,988**	**837,180**
UNADJUSTED OPERATING (DEFICIT) SURPLUS	**(69,856)**	**(114,340)**	**3,132**	**120,264**
Petroleum Products Revolving Fund – Net Expenditure	-	-	-	(28)
ESTIMATED SUPPLEMENTARY REQUIREMENTS				
Regular Operating Requirements	(15,000)	-	(23,000)	-
ESTIMATED APPROPRIATION LAPSES	8,000	8,000	8,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	49,499	52,099	45,757	47,066
Expenditures	(49,499)	(52,099)	(45,757)	(47,066)
OPERATING SURPLUS (DEFICIT) FOR THE YEAR	**(76,856)**	**(106,340)**	**(11,868)**	**120,236**
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	**687,521**	**793,861**	**833,246**	**673,625**
ACCUMULATED SURPLUS AT THE END OF THE YEAR	**610,665**	**687,521**	**821,378**	**793,861**

Summary of Revenues

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
GRANT FROM CANADA	**809,192**	**280,907**	**386,579**	**290,347**
TRANSFER PAYMENTS	**57,251**	**48,438**	**54,953**	**24,655**
TAXATION REVENUE				
Personal Income Tax	51,001	50,504	46,501	42,990
Corporate Income Tax	(181,587)	279,106	263,937	486,285
Tobacco Tax	15,048	12,489	10,229	10,542
Fuel Tax	17,581	17,023	13,809	16,854
Payroll Tax	12,369	11,818	10,107	11,439
Property Taxes and School Levies	7,047	6,958	7,278	6,455
Insurance Tax	2,150	1,700	1,700	2,150
	(76,391)	**379,598**	**353,561**	**576,715**
GENERAL REVENUES				
Liquor Commission Net Revenues	20,897	19,800	17,691	18,588
Regulatory Revenues	12,080	11,337	12,534	11,202
Investment Income	2,774	6,887	4,575	5,847
Other General Revenues	1,132	1,124	187	1,611
	36,883	**39,148**	**34,987**	**37,248**
OTHER RECOVERIES				
Lease and Accommodations	1,530	1,411	1,396	1,400
Service Recoveries	1,492	1,403	1,011	1,612
Program Recoveries	8,108	7,871	7,893	8,704
Commodity Sales	106	105	95	66
Insurance Proceeds	-	-	60	74
Other Miscellaneous Recoveries	20	20	506	482
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	3,555
	14,256	**13,810**	**13,961**	**15,893**
CAPITAL				
Gain on Disposal of Assets	100	100	100	-
Deferred Capital Contributions	12,844	12,474	11,979	12,586
	12,944	**12,574**	**12,079**	**12,586**
TOTAL REVENUES	**854,135**	**774,475**	**856,120**	**957,444**

Summary of Operations Expenditures by Department

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
Legislative Assembly	14,432	14,205	14,047	12,855
Executive	50,183	53,035	50,772	63,287
Finance	10,521	8,107	7,766	6,353
Municipal and Community Affairs	77,994	74,566	70,511	61,229
Public Works and Services	44,218	42,202	41,563	41,046
Health and Social Services	226,182	211,137	199,882	194,217
Justice	75,256	74,347	69,584	65,710
NWT Housing Corporation	52,971	49,276	48,981	47,165
Education, Culture and Employment	210,474	205,352	195,903	194,321
Transportation	76,251	73,024	71,405	71,536
Resources, Wildlife and Economic Development	85,509	83,565	82,574	79,461
TOTAL OPERATIONS EXPENDITURES	**923,991**	**888,816**	**852,988**	**837,180**

Summary of Capital Investment Expenditures by Department

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
Legislative Assembly	-	225	225	-
Executive	600	1,641	1,105	630
Finance	-	-	-	-
Municipal and Community Affairs	8,053	8,590	6,718	6,262
Public Works and Services	1,443	5,956	3,850	4,698
Health and Social Services	10,504	26,268	23,606	30,074
Justice	14,092	29,934	18,846	13,329
NWT Housing Corporation	-	-	-	-
Education, Culture and Employment	9,077	16,581	14,506	9,813
Transportation	27,276	49,719	38,296	32,652
Resources, Wildlife and Economic Development	2,935	3,658	1,925	451
TOTAL CAPITAL INVESTMENT EXPENDITURES	**73,980**	**142,571**	**109,077**	**97,909**

Summary of Changes in Capital Assets and Amortization

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
BEGINNING OF THE YEAR				
Cost of Capital Assets in Service	1,320,328	1,210,814	1,253,406	1,161,102
Accumulated Depreciation	(421,297)	(430,599)	(438,978)	(392,457)
Net Book Value	849,031	780,215	814,428	768,645
CHANGES DURING THE YEAR				
Capital Assets Put into Service	83,053	109,729	83,944	51,784
Disposals	-	(215)	-	(2,072)
Amortization	(45,356)	(40,698)	(40,200)	(38,142)
NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR	**886,728**	**849,031**	**858,172**	**780,215**
Work in Progress on Multi-year Projects	112,141	120,927	118,436	93,799
TOTAL NET BOOK VALUE AND WORK IN PROGRESS	**998,869**	**969,958**	**976,608**	**874,014**

Notes: Capital assets in service include assets purchased, constructed or acquired by a capital lease. Assets put into service during the year include multi-year projects commenced in prior years and completed in the current year plus those projects started and completed in the current year.

Summary of Net Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
CASH SURPLUS (DEFICIT) END OF YEAR	**(85,264)**	**45,060**	**101,441**	**337,747**
GUARANTEED DEBT				
NWT Power Corporation	(75,000)	(87,000)	(88,000)	(79,584)
NWT Energy Corporation	(23,000)	(24,000)	(24,000)	(23,914)
NWT Housing Corporation	(31,000)	(31,000)	(28,000)	(28,990)
TOTAL GUARANTEED DEBT	**(129,000)**	**(142,000)**	**(140,000)**	**(132,488)**
TOTAL (DEBT) SURPLUS	**(214,264)**	**(142,000)**	**(140,000)**	**(132,488)**
AUTHORIZED BORROWING LIMIT	**300,000**	**300,000**	**300,000**	**300,000**
AVAILABLE BORROWING CAPACITY	**85,736**	**158,000**	**160,000**	**167,512**

Notes: Any further guarantees of NWT Power Corporation debt may require a review of the GNWT's overall borrowing authority with the Government of Canada.

Summary of Cash Flows

(thousands of dollars)

	2003-04 Main Estimates	2002-03 Revised Estimates	2002-03 Main Estimates	2001-02 Actuals
CASH PROVIDED BY/USED IN:				
Operating Activities:				
Operating Surplus (Deficit) for the Year	(76,856)	(106,340)	(11,868)	120,236
Items not Affecting Cash:				
Provision for Doubtful Accounts	-	-	-	1,665
Deferred Capital Contributions	(12,844)	(12,474)	(11,979)	(12,586)
Amortization of Tangible Capital Assets	45,356	40,698	40,200	38,142
	(44,344)	**(78,116)**	**16,353**	**147,457**
Changes in Non-cash Assets and Liabilities:				
Due from Canada	(3,000)	(133,000)	(185,000)	228,332
Other Current Assets	(11,000)	18,000	18,000	(17,496)
Other Current Liabilities	3,000	32,000	3,000	31,279
Post Employment Benefits	-	-	-	981
Net Cash Generated By (Used In) Operating Activities	**(55,344)**	**(161,116)**	**(147,647)**	**390,553**
Investing Activities:				
Capital Investment Expenditures	(73,980)	(142,571)	(109,077)	(100,518)
Estimated Supplementary Requirements	(17,000)	-	(12,000)	-
Estimated Appropriation Lapses Due to Incomplete Capital Projects	12,000	12,000	12,000	-
Proceeds from Disposal of Tangible Capital Assets	-	-	-	2,324
Decrease (Increase) to Designated Cash/Investments	-	-	-	(4,747)
Decrease (Increase) to Long-term Loans	(5,000)	(5,000)	(5,487)	(1,277)
Net Cash Generated By (Used In) Investing Activities	**(83,980)**	**(135,571)**	**(114,564)**	**(104,218)**
Financing Activities:				
Repayment of Long-term Capital Lease Obligations	(2,000)	(2,000)	(2,000)	(971)
Deferred Capital Contributions	11,000	6,000	3,000	13,255
Net Cash Generated By (Used In) Financing Activities	**9,000**	**4,000**	**1,000**	**12,284**
CASH SURPLUS (DEFICIT) FOR THE YEAR	**(130,324)**	**(292,687)**	**(261,211)**	**298,619**
OPENING CASH SURPLUS (DEFICIT)	**45,060**	**337,747**	**362,652**	**39,128**
CASH SURPLUS (DEFICIT) END OF YEAR	**(85,264)**	**45,060**	**101,441**	**337,747**

PROVINCIAL AND TERRITORIAL TAX RATES, AS OF FEBRUARY 7, 2003

	Combined Top Marginal PIT rate [a] (%)	Retail Sales Tax (%)	Fuel Tax [b] Gas (¢/litre)	Fuel Tax [b] Diesel (¢/litre)	Tobacco Tax on Cigarettes ($/carton) [c]	Payroll Tax [d] (%)	Corporate Income Tax Small (%)	Corporate Income Tax Large (%)	Capital Tax [e] (%)
Northwest Territories	42.05	-	10.7	9.1	33.20	1.00	4.0	12.0	-
Nunavut	40.50	-	6.4	9.1	31.20	1.00	4.0	12.0	-
Yukon	42.40	-	6.2	7.2	26.40	-	6.0	15.0	-
British Columbia	43.70	7.5	11.0	11.5	30.00	-	4.5	13.5	0/3.0
Alberta	39.00	-	9.0	9.0	32.00	-	4.0 [f]	12.5 [f]	-
Saskatchewan	44.00	6.0	15.0	15.0	32.00	-	6.0	17.0	0.6/3.25
Manitoba	46.40	7.0	11.5	10.9	29.00	2.15	5.0	16.5	0.5/3.0
Ontario	46.41	8.0	14.7	14.3	17.20	1.95	5.5	12.5	0.3/0.9
Quebec	48.22	7.5	15.2	16.2	18.10	4.26	8.9	8.9	0.64/1.28
New Brunswick	46.84	8.0	14.5	16.9	23.50	-	3.0	13.0	0.3/3.0
Nova Scotia	47.34	8.0	15.5	15.4	26.04	-	5.0	16.0	0.25/3.0
Prince Edward Island	47.37	10.0	14.0	13.5	22.90	-	7.5	16.0	0/3.0
Newfoundland	48.64	8.0	16.5	16.5	27.00	-	5.0	14.0	0/4.0
Average [g]	45.75	6.9	13.7	13.9	22.15	1.88	6.1	12.3	

Notes:

(a) Combined Federal-Provincial/Territorial highest personal income tax rates in effect for the 2003 tax year.

(b) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel. Most provinces have separate tax rates for on-highway and off-highway gasoline. The NWT's off-highway gasoline tax rate is 6.4 cents/litre.

(c) Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia and Newfoundland apply sales tax to tobacco products.

(d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or the rates vary depending on the payroll size.

(e) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.

(f) Alberta plans to reduce small and large corporate income tax rates to 4.0 per cent and 12.5 per cent, respectively, effective April 1, 2003.

(g) Average weighted by provincial/territorial population.